

**BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES**

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**Consolidated Financial Statements**

**Together with Independent Auditors' Report  
For the Years Ended August 31, 2018 and 2017**

**BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES**

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For the Years Ended August 31, 2018 and 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
Baltimore Symphony Orchestra, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of the Baltimore Symphony Orchestra, Inc. and Affiliates (collectively, the Symphony), which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Baltimore Symphony Orchestra, Inc. and Affiliates as of August 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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**Substantial Doubt about the Symphony's Ability to Continue as a Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Symphony will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Symphony has experienced, and continues to experience, significant decreases in unrestricted net assets. These conditions raise substantial doubt regarding the Symphony's ability to continue as a going concern. Management's evaluation of these conditions and plans regarding these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

*JCAH Attest Series, PC.*

July 15, 2019

**BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES**

**Consolidated Statements of Financial Position (In Thousands)**

<i>As of August 31,</i>	<i>2018</i>	<i>2017</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,878	\$ 1,111
Promises to give, net	6,097	5,629
Prepaid expenses and other assets	3,473	3,235
Investments	72,594	72,041
Property and equipment, net	22,276	22,756
 Total Assets	 \$ 106,318	 \$ 104,772
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 5,027	\$ 4,133
Annuities payable	100	63
Deferred revenue	5,607	5,659
Accrued pension cost	6,631	6,461
Long-term debt	7,774	8,450
Interest rate swap agreement	84	236
 Total Liabilities	 25,223	 25,002
<b>Commitments (Notes 11 and 12)</b>		
<b>Net Assets (Deficit)</b>		
Unrestricted	(1,419)	(140)
Temporarily restricted	5,412	5,205
Permanently restricted	77,102	74,705
 Total Net Assets	 81,095	 79,770
 Total Liabilities and Net Assets	 \$ 106,318	 \$ 104,772

*The accompanying notes are an integral part of these consolidated financial statements.*

**BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES**

**Consolidated Statement of Activities (In Thousands)  
For the Year Ended August 31, 2018  
(With Comparative Totals for 2017)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
<b>Operating Revenue</b>					
Concert income	\$ 8,897	\$ -	\$ -	\$ 8,897	\$ 7,936
Hall income	491	-	-	491	485
Other operating income	1,505	-	-	1,505	1,533
<b>Total Operating Revenue</b>	<b>10,893</b>			<b>10,893</b>	<b>9,954</b>
<b>Public and Private Support</b>					
Grants for service	4,324	-	-	4,324	3,412
Contributions	7,138	2,017	1,928	11,083	10,233
Special events	799	-	-	799	829
Investment income	4,606	782	469	5,857	8,048
<b>Total Public and Private Support</b>	<b>16,867</b>	<b>2,799</b>	<b>2,397</b>	<b>22,063</b>	<b>22,522</b>
<b>Net Assets Released from Restrictions</b>	<b>2,592</b>	<b>(2,592)</b>			
<b>Total Revenue</b>	<b>30,352</b>	<b>207</b>	<b>2,397</b>	<b>32,956</b>	<b>32,476</b>
<b>Operating Expenses</b>					
Concert activities:					
Artistic personnel	15,176	-	-	15,176	15,176
Production and operating	9,403	-	-	9,403	8,879
General and administrative	2,508	-	-	2,508	2,127
Marketing and public relations	3,173	-	-	3,173	3,312
Development	1,378	-	-	1,378	1,842
<b>Total Operating Expenses</b>	<b>31,638</b>			<b>31,638</b>	<b>31,336</b>
<b>Change in Net Assets from Operations before Non Operating Expenses</b>	<b>(1,286)</b>	<b>207</b>	<b>2,397</b>	<b>1,318</b>	<b>1,140</b>
<b>Non Operating Income (Expenses)</b>					
Interest expense	(261)	-	-	(261)	(224)
Pension related changes including non-cash pension cost	116	-	-	116	1,327
<b>Gain on interest rate swap</b>	<b>152</b>			<b>152</b>	<b>147</b>
<b>Total Non Operating Expenses, net</b>	<b>7</b>			<b>7</b>	<b>1,250</b>
<b>Change in Net Assets (Deficit)</b>	<b>(1,279)</b>	<b>207</b>	<b>2,397</b>	<b>1,325</b>	<b>2,390</b>
<b>Net Assets, beginning of year</b>	<b>(140)</b>	<b>5,205</b>	<b>74,705</b>	<b>79,770</b>	<b>77,380</b>
<b>Net Assets, end of year</b>	<b>\$ (1,419)</b>	<b>\$ 5,412</b>	<b>\$ 77,102</b>	<b>\$ 81,095</b>	<b>\$ 79,770</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES**

**Consolidated Statement of Activities (In Thousands)  
For the Year Ended August 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
<b>Operating Revenue</b>				
Concert income	\$ 7,936	\$ -	\$ -	\$ 7,936
Hall income	485	-	-	485
Other operating income	1,533	-	-	1,533
<b>Total Operating Revenue</b>	<b>9,954</b>	<b>-</b>	<b>-</b>	<b>9,954</b>
<b>Public and Private Support</b>				
Grants for service	3,412	-	-	3,412
Contributions	7,317	1,496	1,420	10,233
Special events	829	-	-	829
Investment income	6,203	1,333	512	8,048
<b>Total Public and Private Support</b>	<b>17,761</b>	<b>2,829</b>	<b>1,932</b>	<b>22,522</b>
<b>Net Assets Released from Restrictions</b>	<b>2,847</b>	<b>(2,847)</b>	<b>-</b>	<b>-</b>
<b>Total Revenue</b>	<b>30,562</b>	<b>(18)</b>	<b>1,932</b>	<b>32,476</b>
<b>Operating Expenses</b>				
Concert activities:				
Artistic personnel	15,176	-	-	15,176
Production and operating	8,879	-	-	8,879
General and administrative	2,127	-	-	2,127
Marketing and public relations	3,312	-	-	3,312
Development	1,842	-	-	1,842
<b>Total Operating Expenses</b>	<b>31,336</b>	<b>-</b>	<b>-</b>	<b>31,336</b>
<b>Change in Net Assets from Operations before Non Operating Expenses</b>	<b>(774)</b>	<b>(18)</b>	<b>1,932</b>	<b>1,140</b>
<b>Non Operating Income (Expenses)</b>				
Interest expense	(224)	-	-	(224)
Pension related changes including non-cash pension cost	1,327	-	-	1,327
Gain on interest rate swap	147	-	-	147
<b>Total Non Operating Expenses, net</b>	<b>1,250</b>	<b>-</b>	<b>-</b>	<b>1,250</b>
<b>Change in Net Assets (Deficit)</b>	<b>476</b>	<b>(18)</b>	<b>1,932</b>	<b>2,390</b>
<b>Net Assets, beginning of year</b>	<b>(616)</b>	<b>5,223</b>	<b>72,773</b>	<b>77,380</b>
<b>Net Assets, end of year</b>	<b>\$ (140)</b>	<b>\$ 5,205</b>	<b>\$ 74,705</b>	<b>\$ 79,770</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES**

**Consolidated Statements of Cash Flows (In Thousands)**

<i>For the years ended August 31,</i>	<i>2018</i>	<i>2017</i>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,325	\$ 2,390
Adjustments to reconcile changes in net assets to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	1,443	1,435
Net realized and unrealized gains on investments	(4,561)	(6,799)
Change in fair value of interest rate swap agreement	(152)	(147)
Change in discount on promises to give	(180)	364
Provision for (recovery of) uncollectible promises to give	23	(51)
Contributions restricted for endowment	(1,573)	(3,640)
Changes in assets and liabilities:		
Promises to give	(311)	1,968
Prepays, other assets, and prepaid pension	(238)	580
Accounts payable and accrued expenses	894	(161)
Annuities payable	37	(11)
Deferred revenue	(52)	(1,936)
Accrued pension costs	170	(757)
 Cash and Cash Equivalents Used in Operating Activities	 (3,175)	 (6,765)
 <b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	41,703	47,763
Purchases of investments	(37,695)	(44,739)
Purchases of property and equipment	(963)	(415)
 Cash and Cash Equivalents Provided by Investing Activities	 3,045	 2,609
 <b>Cash Flows from Financing Activities</b>		
Contributions restricted for endowment	1,573	3,640
Principal borrowings under long-term debt	-	2,160
Principal payments on long-term debt	(676)	(2,624)
 Cash and Cash Equivalents Provided by Financing Activities	 897	 3,176
 <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	 767	 (980)
 <b>Cash and Cash Equivalents, beginning of year</b>	 1,111	 2,091
 <b>Cash and Cash equivalents, end of year</b>	 \$ 1,878	 \$ 1,111
 <b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 261	\$ 223

*The accompanying notes are an integral part of these consolidated financial statements.*

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of Business

The Baltimore Symphony Orchestra, Inc. (the Orchestra or Baltimore Symphony) is a non-profit organization whose purpose is to maintain a symphony for the State of Maryland, present musical concerts and develop a widespread appreciation of fine music.

On March 28, 2006, the Baltimore Symphony Endowment Trust (the Endowment Trust) was formed to protect and hold the permanently restricted endowment funds which had historically been contributed to the Baltimore Symphony Orchestra, Inc. as a permanent endowment, together with the Joseph Meyerhoff Symphony Hall and Cathedral Parking, Inc. The Endowment Trust was formed and instructed to dedicate the funds for such purposes, and subject to such restrictions, as are consistent with the original donor intent. The Board of Trustees of the Endowment Trust consists of nine trustees, three of whom serve by virtue of their positions with the Baltimore Symphony (the Chairman of the Board, the President and the Chairman of the Budget and Finance Committee). The remaining six trustees, which constitute the majority, are appointed to staggered terms by the Baltimore Symphony Board and may not be officers, directors or employees of the Baltimore Symphony. Furthermore, to ensure that the appointed trustees act with the appropriate level of independence, once appointed they may not be removed except by a supermajority vote of the Baltimore Symphony Board. While the Endowment Trust is a separate legal entity with a Board of Trustees that is separate from the Orchestra's Board of Directors, the financial statements of the two organizations are consolidated in accordance with Accounting Standards Codification 810, *Consolidation* (ASC 810) and Codification 958-810, *Not-for-Profit Entities: Consolidation* (ASC 958-810).

On May 31, 2006, in conjunction with the establishment of the Endowment Trust, the Baltimore Symphony transferred a portion of its investment portfolio, the Joseph Meyerhoff Symphony Hall, other property and equipment and promises to give to the Endowment Trust.

Cathedral Parking, Inc. (Cathedral Parking) owns and operates a parking garage adjacent to the Joseph Meyerhoff Symphony Hall.

Collectively, the three organizations are referred to as the Organization or Symphony.

#### Basis of Accounting

The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Basis of Presentation

The consolidated financial statement presentation follows the recommendations of the ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements* (ASC 958-205). Under ASC 958-205, the Symphony is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Symphony pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Symphony's actions.

Revenues are reported as increases in unrestricted net assets unless the use of the related asset is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets, such as the fulfillment of donor-stipulated purpose and/or the passage of stipulated time period, are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which assets are acquired or placed in service.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Orchestra, the Endowment Trust and Cathedral Parking. All intercompany activity has been eliminated in the consolidation.

#### Cash and Cash Equivalents

Cash equivalents consist primarily of bank overnight investment funds. Cash and cash equivalents include \$324,000 and \$339,000 that is restricted for the payment of unemployment claims as of August 31, 2018 and 2017, respectively.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### **Receivables**

Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. No allowance has been recorded for the years ended August 31, 2018 and 2017 as management believes all receivables are collectible. Receivables, which totaled \$804,000 and \$732,000 as of August 31, 2018 and 2017, respectively, are included in prepaid expenses and other assets on the consolidated statements of financial position.

#### **Contributions and Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Symphony that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

In accordance with ASC 958-605, *Not-for-Profit Entities: Revenue Recognition* (ASC 958-605), promises to give in a future accounting period are discounted to their net present value at the time the revenue is recorded. The Symphony's promises to give are discounted at a rate of 5% as of August 31, 2018 and 2017.

The Symphony uses the allowance method to determine uncollectible promises to give. The allowance is based on historical collection experience and management's analysis of specific promises to give.

#### **Investments**

Investments are stated at fair value. For investment purposes, securities of endowment net assets are commingled. The Investment Committee, with general guidelines from the Board of Directors, has full discretionary authority for the purchase and sale of securities. Realized and unrealized gains or losses incurred on securities are charged or credited to current operations and are recorded in the consolidated statements of activities.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### **Investment Risks and Uncertainties**

The Symphony invests in a professionally managed portfolio that contains shares of common stocks and bonds of publicly traded companies, U.S. Government obligations, mutual funds, money market funds, and alternative investments. Such investments are exposed to risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

#### **Gift Annuities**

The Symphony operates a charitable gift annuity agreement program, whereby donors contribute a specific sum of money to the program in exchange for specified payments to be made to a designated beneficiary. Upon death of the beneficiary, the amount of the original gift reverts to the Symphony and can be released for general operations. An actuarially determined present value of expected future annuity payments is recorded as a liability. This amount is discounted at an expected rate of return over the remaining expected life of the beneficiary. The excess of the gift amount over the liability is recorded as revenue by the Symphony. Each subsequent year, the Symphony records revenue for the passing of the year, as the liability is incrementally decreased. The liability for these trusts is included in annuities payable on the consolidated statements of financial position.

#### **Property and Equipment**

Property and equipment are stated at cost, if purchased, or at fair value at date of gift, if donated. Additions or improvements that substantially increase the value of the assets are capitalized. The Symphony capitalizes property and equipment additions and improvements in excess of \$1,000. The costs of maintenance and repairs are charged to operations as incurred. Depreciation is provided on the straight-line method based on the assets' estimated useful lives (50 years for buildings and building improvements and 3 to 10 years for equipment and furnishings).

#### **Interest Rate Swap Agreement**

The Symphony has entered into an interest rate swap agreement to protect against interest rate risks associated with certain variable rate debt (see Note 7). The fair value of the swap agreement is recorded in the consolidated statements of financial position while the gain or loss resulting from the change in the fair value of the agreement is recorded in the consolidated statements of activities as a component of non-operating income or expense. It is management's intention to hold the swap agreement until maturity, at which time the fair value will be zero and all previously recorded gains or losses will have been reversed.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### **Valuation of Long-Lived Assets**

The Symphony accounts for the valuation of long-lived assets under ASC 360, *Property, Plant and Equipment* (ASC 360). ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed are reportable at the lower of the carrying amount or fair value, less costs to sell. As of August 31, 2018 and 2017, management does not believe any long-lived assets are impaired and has not identified any assets as being held for disposal.

#### **Revenue Recognition**

Amounts received from ticket sales and Joseph Meyerhoff Symphony Hall rentals are recognized as revenue in the year service is provided. Amounts received in advance are reported as deferred revenue. Grant revenue is recognized in the year in which the stipulations of the grants are fulfilled.

Amounts received from parking ticket sales for Cathedral Parking are recognized as revenue in the year the service is provided. Amounts received in advance are reported as deferred revenue.

#### **Fundraising Expenses**

Total fundraising expenses, which are included in development expenses on the consolidated statements of activities, totaled approximately \$731,000 and \$749,000 during the years ended August 31, 2018 and 2017, respectively.

#### **Income Taxes**

The Orchestra and the Endowment Trust are generally exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Orchestra and the Endowment Trust qualify for charitable contribution deductions under Section 170(b)(1)(A) and have been classified as organizations that are not private foundations under Section 509(a)(1). The Endowment Trust is a Type I supporting organization under Section 509(a)(3)(B)(i). Income that is not related to exempt purposes, less applicable deductions, is subject to Federal and state corporate income taxes. The Orchestra and the Endowment Trust had no net unrelated business income for the years ended August 31, 2018 and 2017.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Income Taxes – cont'd.

Cathedral Parking is a taxable entity subject to Federal and state income taxes and accounts for income taxes in accordance with ASC 740, *Income Taxes* (ASC 740). ASC 740 requires the recognition of deferred tax assets and liabilities for the expected future consequences of events that have been recognized in the consolidated financial statements or tax returns. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

No taxes were payable during the years ended August 31, 2018 and 2017 as a result of a net operating loss. The tax net operating loss carryforward at August 31, 2018 approximates \$1,753,000. This amount is available to offset future taxable income, and is in excess of the book loss carryforward due to additional depreciation expense for tax purposes. These carryforwards will expire beginning in 2019 and ending in 2028.

During the years ended August 31, 2018 and 2017, Cathedral Parking, Inc. recorded a valuation allowance of approximately \$368,000 and \$537,000, respectively, on the deferred tax assets to reduce the total net deferred tax asset to zero for both 2018 and 2017. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The U.S. Federal tax rate was reduced from 34% to 21% effective January 1, 2018 thereby reducing the amount of the deferred tax asset and related valuation allowance.

ASC 740 prescribes a recognition threshold and a measurement attribute for the consolidated financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return as well as guidance on de-recognition, classification, interest and penalties and consolidated financial statement reporting disclosures. For these benefits to be recognized, a tax position must be more-likely-than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Symphony continues to remain subject to examination by U.S. Federal authorities; however, there are currently no audits in progress.

The Symphony recognizes interest and penalties accrued on any unrecognized tax exposure as a component of income tax expense. The Symphony does not have any amounts accrued relating to interest and penalties as of August 31, 2018 and 2017.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Deferred Financing Costs

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This update requires that debt issuance costs be presented in the statement of financial position as a reduction from the related debt liability rather than as an asset, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015. The Endowment Trust adopted the provisions of this ASU during the year ended August 31, 2017. As a result of the adoption of ASU 2015-03, long-term debt on the accompanying consolidated statements of financial position has been reduced by net deferred financing costs totaling \$2,562 and \$2,812 as of August 31, 2018 and 2017, respectively. The adoption of this ASU had no impact on the consolidated statements of activities or cash flows.

Deferred financing costs included the costs incurred in conjunction with the bond issuance (Note 7). These charges are being amortized over the life of the bonds (20 years) using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective interest method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective interest method. Amortization expense for each of the years ended August 31, 2018 and 2017 was \$250. Accumulated amortization as of August 31, 2018 and 2017 totaled \$2,438 and \$2,188, respectively.

#### Credit Risk

Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At various times during the years ended August 31, 2018 and 2017, the Symphony held amounts on deposit at various financial institutions in excess of the maximum amount insured by the FDIC. The Symphony has not experienced any losses and believes it is not exposed to any significant credit risk with respect to its cash.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### **Advertising**

The Symphony expenses advertising costs when incurred. During the years ended August 31, 2018 and 2017, advertising expense, which is included in marketing and public relations on the consolidated statements of activities, totaled approximately \$703,000 and \$746,000, respectively.

#### **Recently Issued Accounting Pronouncements and Accounting Changes**

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes certain disclosure requirements for investments that calculate net asset value per share and do not use the practical expedient. ASU 2015-07 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016, with early adoption permitted, and should be retrospectively applied to all periods presented. Management has adopted ASU 2015-07 and as such has removed investments that calculate the net asset value per share practical expedient from the fair value hierarchy.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will be effective for fiscal years beginning after December 15, 2019. The distinction between finance leases (previously capital leases) and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous leases guidance. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has elected not to early adopt ASU 2016-02 and will assess the future impact on any leases.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Recently Issued Accounting Pronouncements and Accounting Changes – cont'd.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities* which is effective for fiscal years beginning after December 15, 2017. The primary impacts of ASU 2016-14 are as follows: a) Net Asset Classification: The three categories of net assets will be condensed to two categories: Without Donor Restrictions and With Donor Restrictions. Not-for-profits may choose to disaggregate net assets further within the two categories. b) Board-Designated Net Assets: Not-for-profits will need to disclose the amount, purpose, and type of board designations either on the face of the financials or in the notes to the financial statements. Board-designated net assets remain a subgroup of net assets without donor restrictions. c) Underwater Endowment Assets: Although the underwater calculation remains unchanged, instead of classifying the underwater portion against unrestricted net assets, it will go against the Net Assets With Donor Restrictions. There are also certain additional disclosures such as any board policy or actions taken regarding appropriation from such funds. d) Cash Flow Statement: Not-for-profits will still have the option of presenting operating cash flows using the direct method or the indirect method. If the direct method is chosen, the indirect reconciliation is not required. e) Expenses: Expenses will be required to be presented both by function and by nature, but it is flexible as to how (in statement form vs. in the footnotes). A qualitative disclosure about how costs are allocated by function will also be required. External and internal direct investment expenses will be netted against investment return on the statement of activities. Disclosure of investment return components will no longer be required. f) Liquidity and Availability: The ASU will require (1) quantitative disclosure about availability of financial assets to meet cash needs for general expenditures within one year of the statement of financial position date, and (2) qualitative disclosure about liquidity, presented in the notes, including information about liquidity risk and how the liquid available resources are managed. Management has elected not to early adopt ASU 2016-14 but will assess the impact on future financial statements.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Fair Value Measurement

ASC 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1     Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Symphony has the ability to access.

Level 2     Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3     Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at August 31, 2018 and 2017. The following is a description of the valuation methodologies used for assets measured at fair value:

*Cash and cash equivalents:* Consisted primarily of money market funds, which are valued using quoted market values in an active market.

*Mutual funds:* Valued at the closing price reported in the active market on which the funds are traded.

*Fixed income securities:* Valued based upon sales of identical or similar assets in active markets.

*Common stock:* Valued at the closing price reported on the active market on which the individual securities are traded. All common stock held by the Symphony is traded in active markets to which the Symphony has access.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## **Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017**

### **1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.**

#### **Fair Value Measurement – cont'd.**

*Interest rate swap agreement:* Valued using pricing models developed based on the swap rate and other observable market data. The value is adjusted to reflect nonperformance risk of both the counterparty and the Symphony.

The methods described above may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Symphony believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments could result in a different fair value measurement at the reporting date.

The following table approximates by level, within the fair value hierarchy, the Symphony's assets and liabilities at fair value as of August 31, 2018:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,961,000	\$ -	\$ -	\$ 2,961,000
Mutual funds	38,610,000	-	-	38,610,000
Fixed income securities	-	5,907,000	-	5,907,000
Common stock	13,358,000	-	-	13,358,000
Interest rate swap agreement	-	(84,000)	-	(84,000)
 Total assets and liabilities measured at fair value	 \$ 54,929,000	 \$ 5,823,000	 \$ -	 \$ 60,752,000
 Fund of Funds*	 n/a	 n/a	 n/a	 \$ 3,660,000
Limited partnership interests*	n/a	n/a	n/a	1,450,000
Limited liability company interests*	n/a	n/a	n/a	205,000
Limited interests*	n/a	n/a	n/a	6,443,000
 Total	 \$ 54,929,000	 \$ 5,823,000	 \$ -	 \$ 72,510,000

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Fair Value Measurement – cont'd.

The following table approximates by level, within the fair value hierarchy, the Symphony's assets and liabilities at fair value as of August 31, 2017:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 6,161,000	\$ -	\$ -	\$ 6,161,000
Mutual funds	37,372,000	-	-	37,372,000
Fixed income securities	-	6,146,000	-	6,146,000
Common stock	12,934,000	-	-	12,934,000
Interest rate swap agreement	-	(236,000)	-	(236,000)
 fair value	 \$ 56,467,000	 \$ 5,910,000	 \$ -	 \$ 62,377,000
 Fund of Funds*	 n/a	 n/a	 n/a	 \$ 1,299,000
Limited partnership interests*	n/a	n/a	n/a	1,631,000
Limited liability company interests*	n/a	n/a	n/a	245,000
Limited interests*	n/a	n/a	n/a	6,253,000
 Total	 \$ 56,467,000	 \$ 5,910,000	 \$ -	 \$ 71,805,000

\* In accordance with ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) using the practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

The Symphony invests in certain entities for which the net asset value per share, or its equivalent, has been used to estimate fair value. The table below summarized these investments as well as the strategies, redemptions, and unfunded commitments related to such investments at August 31, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
<b>Alternative Investments:</b>				
Fund of Funds (a)	\$ 3,660,000	N/A	Upon liquidation	N/A
Limited partnership interests (b)	1,450,000	\$ 50,000	N/A	N/A
Limited liability company interests (c)	205,000	58,000	N/A	N/A
Limited interests (d)	6,443,000	-	Upon liquidation	N/A

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Fair Value Measurement – cont'd.

The table below summarized these investments as well as the strategies, redemptions, and unfunded commitments related to such investments at August 31, 2017:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Alternative Investments:				
Fund of Funds (a)	\$ 1,299,000	\$ -	Upon liquidation	N/A
Limited partnership interests (b)	1,631,000	-	Upon liquidation	N/A
Limited liability company interests (c)	245,000	58,000	Upon liquidation	N/A
Limited interests (d)	6,253,000	-	Upon liquidation	N/A

- (a) This category includes investments in fund of funds that invest primarily in private equity funds. These investments can only be redeemed through the liquidation of the underlying assets of the funds.
- (b) This category includes limited partnerships that invest in venture capital and corporate finance funds. These partnerships are scheduled to terminate on the tenth anniversary of their final closing date. Distributions are made to investors through the liquidation of the underlying assets.
- (c) This category includes limited liability companies that invest in venture capital and private equity funds. These funds are scheduled to terminate in January 2017 and June 2019. Distributions are made to investors through the liquidation of the underlying assets.
- (d) This category includes limited interests that invest in other corporations and investment vehicles, as well as indirectly through segregated portfolio companies or investment funds. Distributions are made to investors through the liquidation of the underlying assets.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of additions to net assets and deductions from net assets during the reporting period. Actual results could differ from those estimates.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### **Reclassification**

Certain amounts presented in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation. The reclassification had no effect on previously reported change in net assets or net assets.

#### **Subsequent Events**

The Symphony evaluated for disclosure any subsequent events through July 15, 2019, the date the consolidated financial statements were available to be issued and determined that there were no material events that require disclosure, except as disclosed in Note 14.

### 2. FINANCIAL CONDITION

As noted in the accompanying consolidated financial statements, the Symphony incurred decreases in unrestricted net assets before non-operating expenses of \$1,286,000 and \$774,000 during the years ended August 31, 2018 and 2017, respectively.

During the year ended August 31, 2017, management began the implementation of a transformation plan to stabilize the Symphony's operations. The implementation of the transformation plan, together with improvements in controls and processes, resulted in a significant improvement in the operating results of the Symphony during the years ended August 31, 2018 and 2017.

Management also began a long-term strategic and financial planning process during the year ended August 31, 2017 resulting in a strategic plan being adopted by the Symphony's Board of Directors in June 2018. It is anticipated that the plan will be updated after agreement is reached on a new labor agreement.

Although the financial results for the years ended August 31, 2018 and 2017 have improved significantly versus the loss incurred during the year ended August 31, 2016, the Symphony has experienced, and continues to experience, deficits. These factors raise substantial doubt regarding the Symphony's ability to continue as a going concern.

To help support efforts to develop and implement improvements to controls and processes to improve in the operating results of the Symphony, there have been ongoing, intensive efforts to assess and improve the Symphony's current financial situation. The efforts to strengthen the business model include elements such as revenue composition, revenue predictability and reliability, expense composition, and surplus size and reliability. Growing audiences, sustaining a thriving annual fund, and slowing the growth rate of expenses are components of the efforts to address longstanding financial challenges while maintaining a robust schedule of classical and pops concerts, education programming, holiday concerts and special events. Management will continue to engage the necessary resources to help the BSO move toward a sustainable model that will help the BSO further its trajectory of artistic excellence, accessibility and community impact throughout the region.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 2. FINANCIAL CONDITION – cont'd.

Subsequent to year-end, the Maryland House of Delegates signed the “John C. Merrill Act” (the Act), which provides for an additional \$3.2 million of state support over the next two years. However, it has been confirmed that the funds for the State’s 2020 budget will not be released and it is uncertain whether the funds for the 2021 budget will be made available or, if the funds expected to be received under the Act will meet the current cash needs of the Symphony.

Management proposed a revised collective bargaining agreement with the orchestra musicians that includes a reduced season of 40 weeks. Although the agreement is currently under negotiation with the musicians’ union, a lockout went into effect on June 17, 2019. The Orchestra intends to open its 2019-20 season in September 2019 and plans to resume its schedule of rehearsal and performances beginning the week of Monday, September 9, 2019. Work will be provided for musicians beginning on that date, although musicians may choose not to return to work and strike. Management has evaluated cash flow and has contingency plans in place in the event of a prolonged work stoppage.

Subsequent to year-end, the Endowment Trust has approved an increase in the loan agreement from \$5,000,000 to \$7,300,000 and agreed to defer repayments of principal and interest until such time as cash flow improves, and at least until September 1, 2020. The increased line was approved to support the Orchestra in the restructuring of the season and to support BSO performances through June 16, 2019.

Management believes that the restructuring of the season the Symphony will improve its operating results. However, there is no assurance that the Orchestra will be able to generate sufficient resources to fund its future operations.

### 3. INVESTMENTS

The approximate cost and fair value of investments are as follows at August 31,:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 2,961,000	\$ 2,961,000	\$ 6,161,000	\$ 6,161,000
Mutual funds	35,276,000	38,610,000	33,942,000	37,372,000
Fixed income securities	6,034,000	5,907,000	6,100,000	6,146,000
Common stock	7,280,000	13,358,000	7,312,000	12,934,000
Alternative investments	11,250,000	11,758,000	9,175,000	9,428,000
<b>Total investments</b>	<b>\$ 62,801,000</b>	<b>\$ 72,594,000</b>	<b>\$ 62,690,000</b>	<b>\$ 72,041,000</b>

Investment management fees for the years ended August 31, 2018 and 2017 totaled approximately \$212,000 and \$200,000, respectively, and are included in investment income on the consolidated statements of activities.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 3. INVESTMENTS – cont'd.

Earnings (losses) on investments are as follows for the years ended August 31:

	2018	2017
Net realized gain on sale of investments	\$ 4,119,000	\$ 4,976,000
Interest and dividends, net of fees	1,377,000	1,276,000
<u>Net unrealized appreciation of investments</u>	441,000	1,817,000
<b>Total Earnings on Investments</b>	<b>\$ 5,937,000</b>	<b>\$ 8,069,000</b>

ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements* (ASC 958-205), establishes a framework on the net asset classification of donor-restricted endowment funds for any not-for-profit organization that is subject to a state enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). ASC 958-205 requires expanded disclosures for all endowment funds.

In the event the Symphony receives donor-restricted endowment funds, determination of the net asset classification for the corpus and return on investments is based on the donor's intentions. The Symphony has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that provide an average rate of return of approximately eight percent (8%) annually.

The current spending policy is to draw a fixed percentage of the average market value of the Endowment, calculated over the trailing twelve quarters. The draw is calculated on an annual basis, with the resulting draw amount to be applied over the next twelve months. The trustees are authorized to provide annual support in an amount up to a maximum of six percent (6%). Historically, however, the practice has been to distribute between five and six percent (5-6%) annually.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 3. INVESTMENTS – cont'd.

Changes in Endowed Net Assets are as follows for the year ended August 31, 2018 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net				
Assets (Deficit), September 1, 2017	\$ (425)	\$ 2,498	\$ 70,027	\$ 72,100
Interest & dividends, net of fees	1,369	8	-	1,377
Net appreciation	3,317	774	469	4,560
Draw	(3,838)	-	-	(3,838)
Contributions	37	-	1,673	1,710
Amounts appropriated for expenditure	<u>(2,571)</u>	<u>(692)</u>	<u>-</u>	<u>(3,263)</u>
Endowment Net				
Assets (Deficit), August 31, 2018	\$ (2,111)	\$ 2,588	\$ 72,169	\$ 72,646

Composition of Endowed Net Assets by Fund Type is as follows as of August 31, 2018 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Designated				
Endowment Funds	\$ -	\$ 2,588	\$ 72,169	\$ 74,757
Board Designated				
Endowment Funds	<u>(2,111)</u>	<u>-</u>	<u>-</u>	<u>(2,111)</u>
Total Endowment Funds	<u>\$ (2,111)</u>	<u>\$ 2,588</u>	<u>\$ 72,169</u>	<u>\$ 72,646</u>

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## **Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017**

### **3. INVESTMENTS – cont'd.**

Changes in Endowed Net Assets are as follows for the year ended August 31, 2017 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net</b>				
Assets, September 1, 2016	\$ 367	\$ 1,834	\$ 65,875	\$ 68,076
Interest & dividends, net of fees	1,263	7	-	1,270
Net appreciation	4,961	1,326	512	6,799
Draw	(3,575)	-	-	(3,575)
Contributions	52	-	3,640	3,692
Amounts appropriated for expenditure	(3,493)	(669)	-	(4,162)
<b>Endowment Net</b>				
Assets (Deficit), August 31, 2017	\$ (425)	\$ 2,498	\$ 70,027	\$ 72,100

Composition of Endowed Net Assets by Fund Type is as follows as of August 31, 2017 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Donor Designated</b>				
Endowment Funds	\$ -	\$ 2,498	\$ 70,027	\$ 72,525
<b>Board Designated</b>				
Endowment Funds	(425)	-	-	(425)
<b>Total Endowment Funds</b>	<b>\$ (425)</b>	<b>\$ 2,498</b>	<b>\$ 70,027</b>	<b>\$ 72,100</b>

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 4. GIFT ANNUITY TRUSTS

The Symphony receives gifts in the form of trusts and is required to pay benefits to beneficiaries as specified in the gift annuity agreement. Under these agreements, the Symphony pays a fixed annuity amount for the life of the beneficiaries and fulfills its obligation upon the death of the beneficiaries as set forth in the annuity agreements. As of August 31, 2018 and 2017, the liability associated with the remaining benefit payments, recorded in annuities payable, totaled approximately \$100,000 and \$63,000, respectively. As of August 31, 2018 and 2017, the gift annuity payable was fully backed by investments totaling \$195,000 and \$137,000, respectively. The gift annuity liability was calculated using a discount rate of 3.25% applied to future benefit payments and is included in annuities payable on the accompanying consolidated statements of financial position.

### 5. UNCONDITIONAL PROMISES TO GIVE

As of August 31, 2018 and 2017, contributors to the Symphony's fundraising campaign have made written unconditional promises to give totaling approximately \$6,721,000 and \$6,210,000, respectively, on which management has recorded a present value discount of approximately \$217,000 and \$397,000, respectively. Management has recorded an allowance for doubtful promises to give of approximately \$207,000 and \$184,000 as of August 31, 2018 and 2017, respectively. Promises to give are due as follows:

	2018		2017	
	Trust	Orchestra	Trust	Orchestra
Less than one year	\$ 1,825,000	\$ 1,955,000	\$ 1,568,000	\$ 2,075,000
Years one through five	2,003,000	738,000	2,128,000	439,000
Total	3,828,000	2,693,000	3,696,000	2,514,000
Allowance for doubtful accounts	(105,000)	(102,000)	(94,000)	(90,000)
Present value discount	(164,000)	(53,000)	(324,000)	(73,000)
 Unconditional Promises to Give, net	 \$ 3,559,000	 \$ 2,538,000	 \$ 3,278,000	 \$ 2,351,000

### 6. PROPERTY AND EQUIPMENT

Property and equipment is as follows as of August 31,:

	2018	2017
Land	\$ 1,068,000	\$ 1,068,000
Buildings	44,442,000	43,776,000
Equipment and furnishings	6,838,000	6,541,000
	52,348,000	51,385,000
Accumulated depreciation	(30,072,000)	(28,629,000)
 Property and Equipment, net	 \$ 22,276,000	 \$ 22,756,000

Depreciation expense totaled approximately \$1,443,000 and \$1,435,000 during the years ended August 31, 2018 and 2017, respectively.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 7. LONG-TERM DEBT

During 1999, the Baltimore City Off-Street Parking Commission amended and consolidated the first and second mortgages of Cathedral Parking, Inc. into a single mortgage. Repayment terms consisted of semi-annual principal payments of \$5,000, plus interest. The entire indebtedness and all accrued interest and costs and charges due were paid in a balloon payment on April 15, 2017. Under the consolidated mortgage, interest accrued at 35% of the bank's prime rate. The mortgage was collateralized by the land and garage. The outstanding principal balance as of August 31, 2017 totaled \$0.

During the year ended August 31, 2017, the Endowment Trust obtained a \$2,160,000 note from PNC Bank to refinance the mortgage of Cathedral Parking, Inc. The note is fully secured by fixed income securities of the Endowment Trust held at PNC Bank. The note matures on May 17, 2022 and bears interest at a weekly variable rate as determined by the remarketing agent. During the years ended August 31, 2018 and 2017, the rates ranged from 2.48% to 3.34% and from 2.25% to 2.48%, respectively. As of August 31, 2018 and 2017, the rate was 3.32% and 2.48%, respectively. The outstanding balance of the note payable as of August 31, 2018 and 2017 totaled \$2,068,000 and \$2,142,000, respectively.

During February 2014, the Endowment Trust obtained a note from PNC Bank fully secured by fixed income securities of the Endowment Trust held at PNC Bank. The amount of fixed income securities pledged as collateral equals the outstanding principal plus the interest rate swap liability. The note proceeds refinanced debt, which originally funded renovations to the Meyerhoff Symphony Hall. The note matures on February 1, 2024 and bears interest at a weekly variable rate as determined by the remarketing agent. During the years ended August 31, 2018 and 2017, the rates ranged from 2.23% to 3.09% and from 1.49% to 2.23%, respectively. As of August 31, 2018 and 2017, the rate was 3.08% and 2.23%, respectively. The outstanding balance of the note payable as of August 31, 2018 and 2017 totaled \$3,119,000 and \$3,351,000, respectively.

During August 2015, the Symphony obtained a \$3,700,000 loan through PNC Bank to increase the funding and reduce future minimum contributions of the musician's pension plan liability (Note 9). The note matures on August 5, 2022 and bears interest at a rate per annum equal to the sum of LIBOR in effect on each monthly Reset Date plus 100 basis points. The amount of mutual fund securities pledged as collateral equals the outstanding principal. As of August 31, 2018 and 2017, the rate was 3.09% and 2.22%, respectively. The outstanding balance of the note payable as of August 31, 2018 and 2017 totaled \$2,590,000 and \$2,960,000, respectively.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 7. LONG-TERM DEBT – cont'd.

Aggregate maturities required on long-term debt are as follows as of August 31, 2018:

Years ending August 31:	
2019	\$ 3,564,000
2020	444,000
2021	444,000
2022	3,325,000
	7,777,000
Less: net deferred financing costs	(3,000)
Total long-term debt	\$ 7,774,000

To protect against the interest rate risk associated with the variable rate bonds issued during 2009 and repaid during 2014, the Endowment entered into an interest rate swap agreement with a financial institution with an initial notional amount of \$5,000,000 with a termination date of November 1, 2028. Under the agreement, the Endowment Trust pays a fixed interest rate of 2.455% and receives variable interest rates based upon 71% of USD LIBOR BBA Bloomberg rates. The swap agreement was not terminated in conjunction with the full repayment of the bonds during 2014. As such, the Endowment Trust continues to pay a fixed interest rate and receives variable interest rates per the agreement described above on the current outstanding notional amount. The outstanding notional amount as of August 31, 2018 and 2017 totaled \$3,295,000 and \$3,520,000, respectively. The aggregate fair value of the swap agreement at August 31, 2018 and 2017 was \$(84,000) and \$(236,000), respectively. During the years ended August 31, 2018 and 2017, the Symphony recognized gains of approximately \$152,000 and \$147,000, respectively.

Interest expense on outstanding debt was approximately \$261,000 and \$246,000 for the years ended August 31, 2018 and 2017, respectively.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 8. GRANTS

Grants are as follows for the years ended August 31,:

	2018	2017
State of Maryland		
Operating	\$ 2,907,000	\$ 2,041,000
Education	64,000	64,000
Baltimore City		
Operating	262,000	256,000
Counties		
Baltimore	680,000	680,000
Carroll	-	1,000
Howard	47,000	35,000
Montgomery	364,000	335,000
<b>Total Grants</b>	<b>\$ 4,324,000</b>	<b>\$ 3,412,000</b>

### 9. EMPLOYEE BENEFIT PLANS

#### Defined Contribution Plan

On April 17, 2008, the Orchestra established a contributory 403(b) Plan whereby employees upon commencement of service are eligible to make employee contributions and to receive contributions from the Orchestra. Eligible employees may elect to make pre-tax contributions to the 403(b) Plan subject to the annual maximum amount allowed by the Internal Revenue Code. Under the Plan, the Orchestra may make matching contributions not to exceed 4% of employee annual compensation. 403(b) Plan expense totaled \$0 during the years ended August 31, 2018 and 2017. A participant becomes 100% vested in employer contributions after the completion of six years of service.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 9. EMPLOYEE BENEFIT PLANS – cont'd.

#### **Multi-Employer Defined Contribution Plan**

In September 2000, the Orchestra members' pension plan was frozen. Concurrently, the Symphony began participating in the American Federation of Musicians and Employers' Pension Fund (the Fund). Contributions on behalf of each Orchestra member equal to 5% of minimum scale wages were made to the Fund during the years ended August 31, 2018 and 2017. The Fund covers every employee for whom the collective bargaining agreement requires contributions. Total contributions made by the Orchestra during each of the years ended August 31, 2018 and 2017 were approximately \$391,000 and \$386,000, respectively. The Orchestra would incur significant penalties upon withdrawal from the Fund.

#### **Noncontributory Defined Benefit Plans**

The Symphony has two noncontributory defined benefit pension plans (the Pension Plans). The plan covering administrative personnel provides pension benefits that are based on the employee's compensation during five consecutive years of the employee's last ten fiscal years before retirement and on the number of years of benefit accrual service. Both plans provide for benefits that are based on the number of years of benefit accrual service. Pension plan funding is determined under the frozen entry age actuarial cost method in accordance with the Employee Retirement Income Security Act of 1974. As of August 31, 2018 and 2017, both plans were frozen, allowing no new participants to enter the plans.

ASC 958-715, *Not-for-Profit Entities: Retirement Benefits* (ASC 958-715), requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on the consolidated statement of financial position and to recognize changes in that funded status in the year changes occur as a change in net assets in the consolidated statement of activities. Funded status is measured as the difference between plan assets at fair value and the projected benefit obligation. ASC 958-715 also requires that plan assets and benefit obligations be measured as of the date of the employer's consolidated statement of financial position. Previous guidance allowed the employer to measure the assets and obligations of the plan as of a date not more than three months prior to the consolidated statement of financial position.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 9. EMPLOYEE BENEFIT PLANS – cont'd.

The funded status and amounts recognized on the accompanying consolidated statements of financial position and statements of activities relating to the Pension Plans, as of the measurement dates, are as follows:

	Orchestra Plan		Administrative Plan	
	August 31, 2018	2017	August 31, 2018	2017
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 23,565,000	\$ 24,160,000	\$ 3,032,000	\$ 3,107,000
Actuarial (gain)/loss	165,000	(268,000)	31,000	(105,000)
Interest cost	844,000	834,000	113,000	105,000
Benefits paid	(1,274,000)	(1,161,000)	(93,000)	(75,000)
 Benefit Obligation at End of Year	 23,300,000	 23,565,000	 3,083,000	 3,032,000
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	17,857,000	17,831,000	2,304,000	2,235,000
Actual return on plan assets	875,000	1,187,000	108,000	144,000
Benefits paid	(1,274,000)	(1,161,000)	(93,000)	(75,000)
 Fair Value of Plan Assets at End of Year	 17,458,000	 17,857,000	 2,319,000	 2,304,000
Accrued Pension Liability	(5,842,000)	(5,708,000)	(764,000)	(728,000)
Accumulated Benefit Obligation	\$ 23,300,000	\$ 23,565,000	\$ 3,083,000	\$ 3,032,000

	2018	2017
<b>Change in accumulated losses included in unrestricted net assets related to a defined benefit plan, not yet included in net periodic benefit costs:</b>		
Beginning of year	\$ 10,529,000	\$ 11,856,000
Pension related activities other than net periodic pension cost	(116,000)	(1,327,000)
End of year accumulated other comprehensive loss	\$ 10,413,000	\$ 10,529,000

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 9. EMPLOYEE BENEFIT PLANS – cont'd.

Amounts included in pension related changes including non-cash pension cost on the consolidated statement of activities consist of the following as of August 31,:

	2018	2017
Pension related changes	\$ 170,000	\$ (765,000)
Net periodic pension expense	(286,000)	(562,000)
Pension expense other than net periodic pension cost	\$ (116,000)	\$ (1,327,000)

#### Assumptions

Weighted average assumptions used to determine the net periodic pension cost and benefit obligations are as follows:

	Orchestra Plan		Administrative Plan	
	2018	2017	2018	2017
Benefit obligation discount rate	4.00%	3.75%	4.00%	3.75%
Net periodic pension cost discount rate	4.00%	3.75%	4.00%	3.75%
Expected return on plan assets	7.50%	7.50%	7.50%	7.50%
Rate of increase in compensation levels	N/A	N/A	N/A	N/A

The Symphony determines the long-term rate of return on Pension Plans' assets by taking into consideration the historical returns of various asset classes and the types of investments the Pension Plans are expected to hold. The chart below details ranges for the expected long-term returns for the asset classes in which the Pension Plans currently invest:

Asset Class	Orchestra Plan		Administrative Plan	
	2018	2017	2018	2017
Equity	6%-8.5%	6%-8.5%	6%-9%	6%-9%
Fixed income	4.5%-8%	4.5%-8%	5.5%-9%	5.5%-9%
Cash & cash equivalents	2%-4%	2%-4%	3.5%-9%	3.5%-9%

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 9. EMPLOYEE BENEFIT PLANS – cont'd.

#### Plan Assets

The Pension Plans' weighted-average asset allocations, by asset category, are as follows as of August 31,:

Asset Class	Orchestra Plan		Administrative Plan	
	2018	2017	2018	2017
Equity	56%	53%	62%	24%
Fixed income	40%	40%	36%	28%
Alternative Investments	0%	6%	0%	0%
Guaranteed Fixed Fund	0%	0%	0%	48%
Cash & cash equivalents	4%	1%	2%	0%
	100%	100%	100%	100%

Assets of the Pension Plans are invested in a manner consistent with fiduciary standards of the Employee Retirement Income Security Act of 1974 (ERISA); namely, (a) the safeguards and diversity to which a prudent investor would adhere must be present, and (b) all transactions undertaken on behalf of the Pension Plans must be for the sole interest of Plan participants and beneficiaries, to provide benefits in a prudent manner. Investment objectives of the Pension Plan also include:

- Preserve the value of the Plans' assets
- Provide sufficient liquidity to fund benefit payments and meet the Plans' requirements

Plan assets are valued at fair value in accordance with ASC 820 (Note 1). A description of the valuation methodologies used for assets measured at fair value is listed below.

*Interest bearing cash:* Valued at cost plus accrued interest.

*Equity securities:* Valued at the closing market price of shares held by the Plans at year-end. Shares are traded on an active market.

*Fixed income securities:* Valued at the closing market price of shares held by the Plans at year-end. Shares are traded on an active market.

*Guaranteed fixed fund:* Empower Retirement (Empower) provides a guaranteed interest rate for a specified period of time and invests the funds in a general account. Empower reports that fair value equals contract value. Contract value represents contributions and reinvested income, less any withdrawals, expenses and other changes.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## **Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017**

### **9. EMPLOYEE BENEFIT PLANS – cont'd.**

The following table sets forth by level, within the fair value hierarchy, the Orchestra Plan's investments at fair value as of August 31, 2018:

	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 720,000	\$ -	\$ -	\$ 720,000
Interests in registered investment companies	9,848,000	-	-	9,848,000
US Government Securities	2,245,000	-	-	2,245,000
Corporate Debt	4,645,000	-	-	4,645,000
 Total assets	 \$ 17,458,000	 \$ -	 \$ -	 \$ 17,458,000
 Alternative investment*	 n/a	 n/a	 n/a	 -
 Total plan assets at fair value	 \$ 17,458,000	 \$ -	 \$ -	 \$ 17,458,000

The following table sets forth by level, within the fair value hierarchy, the Orchestra Plan's investments at fair value as of August 31, 2017:

	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 258,000	\$ -	\$ -	\$ 258,000
Interests in registered investment companies	9,411,000	-	-	9,411,000
US Government Securities	3,048,000	-	-	3,048,000
Corporate Debt	4,053,000	-	-	4,053,000
 Total assets	 \$ 16,770,000	 \$ -	 \$ -	 \$ 16,770,000
 Alternative investment*	 n/a	 n/a	 n/a	 1,087,000
 Total plan assets at fair value	 \$ 16,770,000	 \$ -	 \$ -	 \$ 17,857,000

\* In accordance with ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) using the practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the tables above.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## **Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017**

### **9. EMPLOYEE BENEFIT PLANS – cont'd.**

The following table sets forth by level, within the fair value hierarchy, the Administrative Plan's investments at fair value as of August 31, 2018:

	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 54,000	\$ -	\$ -	\$ 54,000
Interests in registered investment companies:				
Equity	1,430,000	-	-	1,430,000
Fixed Income	835,000	-	-	835,000
<b>Total plan assets at fair value</b>	<b>\$ 2,319,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,319,000</b>

The following table sets forth by level, within the fair value hierarchy, the Administrative Plan's investments at fair value as of August 31, 2017:

	Level 1	Level 2	Level 3	Total
Guaranteed Fixed Fund	\$ -	\$ 1,098,000	\$ -	\$ 1,098,000
Interests in registered investment companies:				
Equity	557,000	-	-	557,000
Fixed Income	649,000	-	-	649,000
<b>Total plan assets at fair value</b>	<b>\$ 1,206,000</b>	<b>\$ 1,098,000</b>	<b>\$ -</b>	<b>\$ 2,304,000</b>

### **Contributions**

The Symphony does not expect to make a contribution to the Orchestra or Administrative plan during the year ending August 31, 2019.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

### 9. EMPLOYEE BENEFIT PLANS – cont'd.

#### Expected Future Benefit Payments

The following benefit payments, which reflect expected future service are expected to be paid:

Years ending August 31,: 2019	Orchestra Plan \$ 1,683,000	Administrative Plan \$ 118,000
2020	1,690,000	152,000
2021	1,730,000	165,000
2022	1,738,000	158,000
2023	1,716,000	155,000
2024-2028	8,255,000	871,000

### 10. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

The Joseph Meyerhoff Memorial Fund was established for the purpose of maintaining and funding improvements to the Joseph Meyerhoff Symphony Hall. The Fund was established with an initial permanently restricted contribution in the amount of \$5,000,000. A portion of the income earned on the corpus is temporarily restricted for the maintenance and improvement of the Joseph Meyerhoff Symphony Hall. The remaining portion of income earned is added to the corpus.

The Joseph Meyerhoff Memorial Fund restricted fund balance is as follows as of August 31,:

	2018	2017
Joseph Meyerhoff Memorial Fund:		
Permanently restricted		
Principal Account	\$ 9,655,000	\$ 9,545,000
Temporarily restricted		
Maintenance Account	447,000	465,000
Total Joseph Meyerhoff Memorial Fund	\$ 10,102,000	\$ 10,010,000

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## **Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017**

### **10. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS – cont'd.**

Temporarily restricted net assets are available for the following purposes or periods:

	2018	2017
Joseph Meyerhoff Memorial Fund:		
Maintenance Account	\$ 447,000	\$ 465,000
Contributed income:		
Time restrictions - operations	1,240,000	805,000
Purpose restrictions	3,725,000	3,935,000
<b>Total temporarily restricted</b>	<b>\$ 5,412,000</b>	<b>\$ 5,205,000</b>

Net assets released from restrictions consisted of the following for the years ended August 31,:

	2018	2017
Joseph Meyerhoff Symphony Hall renovations	\$ 668,000	\$ 668,000
Time restrictions - operations	460,000	524,000
Purpose restrictions	1,464,000	1,655,000
<b>Total net assets released from restriction</b>	<b>\$ 2,592,000</b>	<b>\$ 2,847,000</b>

Permanently restricted net assets consist of investments to be held in perpetuity, the income from which is available to fund the operating expenses of the Symphony as authorized by the Endowment Trust's Board of Trustees and renovations to the Joseph Meyerhoff Symphony Hall as approved by the Fund Committee of the Joseph Meyerhoff Memorial Fund.

### **11. RELATED PARTY TRANSACTIONS**

During the year ended August 31, 2016, the Endowment Trust entered into an agreement with the Orchestra under which the Endowment Trust agreed to lend up to \$2,000,000 to the Orchestra. During the year ended August 31, 2017, the Endowment Trust increased this limit to \$5,000,000. Advances under the line bear interest at the thirteen-week Treasury Bill rate as published by the Wall Street Journal. The total amount outstanding, including accrued interest, totaled approximately \$5,102,000 and \$4,828,000 as of August 31, 2018 and 2017, respectively and is shown as loan receivable, related party on the Endowment Trust's consolidated statements of financial position.

As discussed in Note 2, The Orchestra has experienced, and continues to experience, significant decreases in unrestricted net assets. Based on the current financial status of the Orchestra, there is substantial doubt about the Orchestra's ability to repay the loan balance due to the Endowment Trust. As such, the Endowment Trust has recorded an allowance for doubtful accounts totaling \$5,102,000 as of August 31, 2018 in its consolidated financial statements. The loan receivable has been eliminated in the preparation of the accompanying consolidated financial statements.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 11. RELATED PARTY TRANSACTIONS – cont'd.

As of August 31, 2018 and 2017, Cathedral Parking owed the Orchestra \$3,424,000 and \$3,186,000, respectively. These advances are non-interest bearing and payable on demand and recorded as due to affiliate in the Endowment Trust's consolidated statements of financial position. These advances have been eliminated in the preparation of the accompanying consolidated financial statements.

As of August 31, 2018 and 2017, the Orchestra owed the Endowment Trust approximately \$572,000 and \$219,000, respectively. These advances are non-interest bearing and payable on demand and recorded as due from affiliate in the Endowment Trust's consolidated statements of financial position. These advances have been eliminated in the preparation of the accompanying consolidated financial statements.

### 12. CONTRACTS AND AGREEMENTS

The Symphony operates under a collective bargaining agreement with the orchestra musicians. The agreement requires employment of a minimum number of musicians and establishes compensation and benefits, as well as revenue sharing agreements. The term of the agreement was for one year and four months and expired on January 15, 2019. Although, management continues to negotiate a collective bargaining agreement with the musicians' union, a lockout went into effect on June 17, 2019. The Orchestra intends to open its 2019-20 season in September 2019 and plans to resume its schedule of rehearsal and performances beginning Monday, September 9, 2019. Work will be provided for musicians beginning on that date although musicians may choose not to return to work and strike.

The Symphony has a collective bargaining agreement with the stagehands. The agreement requires employment of a minimum number of stagehands and establishes compensation and benefits. The term of the agreement is for four years and five months expiring on September 15, 2019.

The Symphony has an employment agreement with its Music Director that extends through August 31, 2021 and its President and Chief Executive Officer that extends through January 31, 2022. These agreements contain provisions for compensation, reimbursable expenses, termination and renewal.

# BALTIMORE SYMPHONY ORCHESTRA, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended August 31, 2018 and 2017

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### 13. LEASES

#### Operating Leases

The Symphony leases a concert hall under a yearly operating lease agreement in Montgomery County, Maryland. The lease requires monthly payments and is effective July 1, 2018 through June 30, 2019. In June 2015, the Symphony entered a lease for an education center and office space. The lease requires monthly payments and is effective July 1, 2015 through June 30, 2020. Rent expense totaled approximately \$828,000 and \$856,000 for the years ended August 31, 2018 and 2017, respectively.

The Symphony entered into two operating leases for office equipment that will expire November 2019 and June 2022. Rent expense totaled approximately \$49,000 and \$53,000 for the years ended August 31, 2018 and 2017, respectively.

The future minimum lease payments under operating leases as of August 31, 2018 are as follows:

<u>Years ending August 31:</u>		
2019	\$	531,000
2020		44,000
2021		22,000
2022		18,000
<b>Total</b>	<b>\$</b>	<b>615,000</b>

### 14. SUBSEQUENT EVENTS

As discussed in Note 2, the Symphony was granted \$1.6 million during each of the state's fiscal years ended June 30, 2020 and 2021. However, it has been confirmed that the funds for the 2020 budget will not be released and it is uncertain whether the funds for the 2021 budget will be made available. Since the year ended August 31, 2018, the Endowment Trust has approved an increase in the loan agreement from \$5,000,000 to \$7,300,000 and agreed to defer re-payments of principal and interest until such time as cash flow improves, and at least until September 1, 2020. The increased line was approved to support the Orchestra in the restructuring of the season. As discussed in Note 2, there is substantial doubt as to the Orchestra's ability to repay the loan balances owed to the Endowment Trust.

Although a collective bargaining agreement is currently under negotiation with the musicians' union, a lockout went into effect on June 17, 2019. The Orchestra intends to open its 2019-20 season in September 2019 and plans to resume its schedule of rehearsal and performances beginning the week of Monday, September 9, 2019. Work will be provided for musicians beginning on that date although musicians may choose not to return to work and strike.

On April 24, 2019, the February 2014 note obtained by the Endowment Trust from PNC was amended to remove various covenants and extend the maturity date to February 2024.



## INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

To the Board of Directors of the  
Baltimore Symphony Orchestra, Inc. and Affiliates:

We have audited the consolidated financial statements of the Baltimore Symphony Orchestra, Inc. and Affiliates (collectively, the Symphony) as of and for the years ended August 31, 2018 and 2017, and our report thereon dated July 15, 2019, which appears on page 1, expressed an unmodified opinion on those consolidated financial statements but included an emphasis of a matter paragraph that referred to factors that raise substantial doubt about the Symphony's ability to continue as a going concern. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information, which follows, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The consolidating information does not include any adjustments that might result from the outcome of the uncertainty regarding the Symphony's ability to continue as a going concern.

*SC&H Attest Services, PC.*

July 15, 2019

**BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES**

**Consolidating Statement of Financial Position (In Thousands)  
As of August 31, 2018**

	Baltimore Symphony Orchestra, Inc.	Baltimore Symphony Endowment Trust	Cathedral Parking, Inc.	Eliminations	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 1,378	\$ 472	\$ 28	\$ -	\$ 1,878
Promises to give, net	2,538	3,559	-	-	6,097
Due from affiliates	2,851	5,674	919	(9,444)	-
Prepaid expenses and other assets	1,855	552	1,566	(500)	3,473
Investments	-	72,594	-	-	72,594
Property and equipment, net	527	20,391	1,358	-	22,276
<b>Total Assets</b>	<b>\$ 9,149</b>	<b>\$ 103,242</b>	<b>\$ 3,871</b>	<b>\$ (9,944)</b>	<b>\$ 106,318</b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 4,718	\$ 192	\$ 117	\$ -	\$ 5,027
Annuities payable	-	100	-	-	100
Deferred revenue	6,005	-	102	(500)	5,607
Due to affiliates	5,101	-	4,343	(9,444)	-
Accrued pension cost	6,631	-	-	-	6,631
Long-term debt	2,590	5,184	-	-	7,774
Interest rate swap agreement	-	84	-	-	84
<b>Total Liabilities</b>	<b>25,045</b>	<b>5,560</b>	<b>4,562</b>	<b>(9,944)</b>	<b>25,223</b>
<b>Net Assets (Deficit)</b>					
Unrestricted	(18,194)	17,466	(691)	-	(1,419)
Temporarily restricted	2,298	3,114	-	-	5,412
Permanently restricted	-	77,102	-	-	77,102
<b>Total Net Assets (Deficit)</b>	<b>(15,896)</b>	<b>97,682</b>	<b>(691)</b>	<b>-</b>	<b>81,095</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 9,149</b>	<b>\$ 103,242</b>	<b>\$ 3,871</b>	<b>\$ (9,944)</b>	<b>\$ 106,318</b>

*See independent auditors' report on consolidating information.*

**BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES**

**Consolidating Statement of Financial Position (In Thousands)  
As of August 31, 2017**

	Baltimore Symphony Orchestra, Inc.	Baltimore Symphony Endowment Trust	Cathedral Parking, Inc.	Eliminations	Consolidated
<b>Assets</b>					
Cash and cash equivalents	\$ 961	\$ 146	\$ 4	\$ -	\$ 1,111
Promises to give, net	2,351	3,278	-	-	5,629
Due from affiliates	2,967	5,047	919	(8,933)	-
Prepaid expenses and other assets	1,607	59	1,569	-	3,235
Investments	-	72,041	-	-	72,041
Property and equipment, net	355	21,175	1,226	-	22,756
<b>Total Assets</b>	<b>\$ 8,241</b>	<b>\$ 101,746</b>	<b>\$ 3,718</b>	<b>\$ (8,933)</b>	<b>\$ 104,772</b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 3,701	\$ 330	\$ 102	\$ -	\$ 4,133
Annuities payable	-	63	-	-	63
Deferred revenue	5,556	-	103	-	5,659
Due to affiliates	4,828	-	4,105	(8,933)	-
Accrued pension cost	6,461	-	-	-	6,461
Long-term debt	2,960	5,490	-	-	8,450
Interest rate swap agreement	-	236	-	-	236
<b>Total Liabilities</b>	<b>23,506</b>	<b>6,119</b>	<b>4,310</b>	<b>(8,933)</b>	<b>25,002</b>
<b>Net Assets (Deficit)</b>					
Unrestricted	(17,446)	17,898	(592)	-	(140)
Temporarily restricted	2,181	3,024	-	-	5,205
Permanently restricted	-	74,705	-	-	74,705
<b>Total Net Assets (Deficit)</b>	<b>(15,265)</b>	<b>95,627</b>	<b>(592)</b>	<b>-</b>	<b>79,770</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 8,241</b>	<b>\$ 101,746</b>	<b>\$ 3,718</b>	<b>\$ (8,933)</b>	<b>\$ 104,772</b>

*See independent auditors' report on consolidating information.*

BALTIMORE SYMPHONY ORCHESTRA, INC.  
AND AFFILIATES

Consolidating Statement of Activities (In Thousands)  
For the Year Ended August 31, 2018

	Unrestricted						Temporarily Restricted			Permanently Restricted		
	Baltimore Symphony Endowment Fund			Cathedral Park, Inc.			Baltimore Symphony Orchestra, Inc.			Baltimore Symphony Endowment Fund		
	Baltimore Symphony Orchestra, Inc.	Baltimore Symphony Endowment Fund	Cathedral Park, Inc.	Total	Baltimore Symphony Orchestra, Inc.	Total	Baltimore Symphony Orchestra, Inc.	Total	Baltimore Symphony Endowment Fund	Total	Endowment Trust	Eliminations
<b>Operating Revenue</b>												
Concert income	\$ 8,897	\$ -	\$ -	\$ 8,897	\$ -	\$ 491	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,897
Hall income	914	-	-	591	-	1,505	-	-	-	-	-	491
Other operating income	-	-	-	-	-	-	-	-	-	-	-	1,505
<b>Total Operating Revenue</b>	10,302	-	591	10,893	-	-	-	-	-	-	-	10,893
Public and Private Support												
Grants for service	4,324	-	-	4,324	-	-	2,017	-	2,017	-	-	4,324
Contributions	7,101	37	-	7,138	-	-	-	-	-	1,928	-	11,083
Special events	799	-	-	799	-	-	-	-	-	-	-	799
Investment income (loss)	(1)	4,686	-	4,685	-	-	782	-	782	-	469	(79)
Operating endowment draw	3,838	(3,838)	-	-	-	-	-	-	-	-	-	-
<b>Total Public and Private Support</b>	16,061	885	-	16,946	-	2,017	782	2,799	2,397	(79)	(79)	22,063
Net Assets Released from Restrictions	1,900	692	-	2,592	(1,900)	(692)	(2,592)	-	-	-	-	-
<b>Total Revenue</b>	28,263	1,577	591	30,431	117	90	207	2,397	(79)	(79)	(79)	32,956
Operating Expenses												
Concert activities:												
Artistic personnel	15,176	-	-	15,176	-	-	-	-	-	-	-	15,176
Production and operating	7,418	1,296	689	9,403	-	-	-	-	-	-	-	9,403
General and administrative	1,832	675	1	2,508	-	-	-	-	-	-	-	2,508
Marketing and public relations	3,173	-	-	3,173	-	-	-	-	-	-	-	3,173
Development	1,378	-	-	1,378	-	-	-	-	-	-	-	1,378
<b>Total Operating Expenses</b>	28,977	1,971	690	31,638	-	-	-	-	-	-	-	31,638
Change in Net Assets from Operations before Non Operating Expenses	(714)	(394)	(99)	(1,207)	117	90	207	2,397	(79)	(79)	(79)	1,318
Non Operating Income (Expenses)												
Interest expense	(150)	(190)	-	(340)	-	-	-	-	-	-	79	(261)
Pension related changes including non-cash pension cost	116	-	-	116	-	-	-	-	-	-	116	-
Gain on interest rate swap	-	152	-	152	-	-	-	-	-	-	-	152
<b>Total Non Operating Expenses, net</b>	(34)	(38)	-	(72)	-	-	-	-	-	-	79	7
Change in Net Assets (Deficit)	(748)	(432)	(99)	(1,279)	117	90	207	2,397	-	-	-	1,325
<b>Net Assets (Deficit), beginning of year</b>	(17,446)	17,898	(592)	(140)	2,181	3,024	5,205	74,705	-	-	-	79,770
<b>Net Assets (Deficit), end of year</b>	\$ (18,194)	\$ 17,465	\$ (691)	\$ (1,419)	\$ 3,114	\$ 5,412	\$ 77,102	\$ -	\$ -	\$ -	\$ -	\$ 81,095

See independent auditors' report on consolidating information.

**BALTIMORE SYMPHONY ORCHESTRA, INC.**  
AND AFFILIATES

**Consolidating Statement of Activities (In Thousands)**

**For the Year Ended August 31, 2017**

	<i>Unrestricted</i>						<i>Temporarily Restricted</i>			<i>Baltimore Symphony Endowment Trust</i>			Permanently Restricted-Baltimore Symphony Endowment Trust	Eliminations	Consolidated			
	Baltimore Symphony Endowment Trust			Cathedral Parking, Inc.			Baltimore Symphony Orchestra, Inc.			Baltimore Symphony Endowment Trust								
	Baltimore Symphony Orchestra, Inc.	Baltimore Symphony Endowment Trust	Cathedral Parking, Inc.	Total	Baltimore Symphony Orchestra, Inc.	Total	Baltimore Symphony Endowment Trust	Total	Baltimore Symphony Endowment Trust	Total	Baltimore Symphony Endowment Trust	Total						
<b>Operating Revenue</b>																		
Concert income	\$ 7,936	\$ -	\$ -	\$ 7,936	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,936	\$ 7,936				
Hall income	483	-	-	483	-	-	-	-	-	-	-	-	483	483				
Other operating income	981	-	552	1,533	-	-	-	-	-	-	-	-	1,533	1,533				
<b>Total Operating Revenue</b>	9,402	-	552	9,954	-	-	-	-	-	-	-	-	-	9,954				
Public and Private Support																		
Grants for service	3,412	-	-	3,412	-	-	-	-	-	-	-	-	-	3,412				
Contributions	7,098	219	-	7,317	1,496	-	1,496	-	-	1,420	-	-	-	10,233				
Special events	829	-	829	829	-	-	-	-	-	-	-	-	-	829				
Investment income	1	6,224	-	6,225	-	-	1,333	1,333	-	512	(22)	-	-	8,048				
Operating endowment draw	3,575	(3,575)	-	-	-	-	-	-	-	-	-	-	-	-				
<b>Total Public and Private Support</b>	14,915	2,868	-	17,783	1,496	1,333	2,829	-	1,932	(22)	-	-	-	22,522				
<b>Net Assets Released from Restrictions</b>	2,173	669	-	2,847	(2,178)	(669)	(2,847)	-	-	-	-	-	-	-				
<b>Total Revenue</b>	26,495	3,537	552	30,584	(682)	664	(18)	1,932	(22)	32,476								
Operating Expenses																		
Concert activities:																		
Artistic personnel	15,176	-	-	15,176	-	-	-	-	-	-	-	-	-	15,176				
Production and operating	6,880	1,319	680	8,879	-	-	-	-	-	-	-	-	-	8,879				
General and administrative	1,634	493	-	2,127	-	-	-	-	-	-	-	-	-	2,127				
Marketing and public relations	3,312	-	-	3,312	-	-	-	-	-	-	-	-	-	3,312				
Development	1,842	-	-	1,842	-	-	-	-	-	-	-	-	-	1,842				
<b>Total Operating Expenses</b>	28,844	1,812	680	31,336	-	-	-	-	-	-	-	-	-	31,336				
Change in Net Assets from Operations before Non Operating Expenses	(2,349)	1,725	(128)	(752)	(682)	664	(18)	1,932	(22)	1,140								
Non Operating Income (Expenses)																		
Interest expense	(55)	(162)	(29)	(246)	-	-	-	-	-	-	-	-	-	(224)				
Pension related changes including non-cash pension cost	1,327	-	-	1,327	-	-	-	-	-	-	-	-	-	1,327				
Gain on interest rate swap	-	147	-	147	-	-	-	-	-	-	-	-	-	147				
<b>Total Non Operating Expenses, net</b>	1,272	(15)	(29)	1,228	-	-	-	-	-	-	-	-	-	1,250				
Change in Net Assets (Deficit)	(1,077)	1,710	(157)	476	(682)	664	(18)	1,932	(22)	1,140								
<b>Net Assets (Deficit), beginning of year</b>	(16,369)	16,188	(435)	(616)	2,863	2,360	5,223	72,773	-	77,380								
<b>Net Assets (Deficit), end of year</b>	\$ (17,446)	\$ 17,898	\$ (592)	\$ (140)	\$ 2,181	\$ 3,024	\$ 5,205	\$ 74,705	\$ -	\$ 79,770								

*See independent auditors' report on consolidating information.*